

CITY OF KEYSTONE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014**

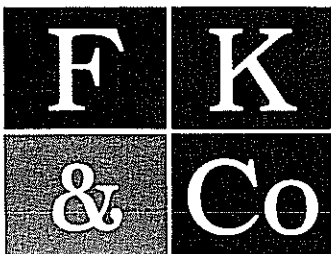
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City of Keystone

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Michael Seeck	Mayor	Jan 2014
Mark Andersen	Council Member	Jan 2014
Kathy Janss	Council Member	Jan 2014
Richard Loy, Jr	Council Member	Jan 2016
Michael Kauser	Council Member	Jan 2016
Darin Rieck	Council Member	Resigned
Tim Kruse	Council Member	Jan 2016
Angie Hagen	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite
(After January 2014)		
Michael Seeck	Mayor	Jan 2016
Mark Andersen	Council Member	Jan 2018
Kathy Janss	Council Member	Jan 2018
Richard Loy, Jr	Council Member	Jan 2016
Michael Kauser	Council Member	Jan 2016
Tim Kruse	Council Member	Jan 2016
Angie Hagen	City Clerk	Indefinite
Jennifer Zahradnik	City Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Keystone pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Keystone for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.
15. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
16. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Keystone, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Keystone, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Keystone and other parties to whom the City of Keystone may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Keystone during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

Faller, Kincheloe & Co, PLC

November 21, 2014

CITY OF KEYSTONE

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

(C) Official Depositories – A resolution naming official depositories has not been fully adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

CITY OF KEYSTONE

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

(D) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund, a summary of all receipts and a list of approved claims. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements from each fund, summary of all receipts and the list of approved claims as required.

(E) Timesheets – Although timesheets were prepared for all employees, there was no indication the timesheets were reviewed and approved.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets and the timesheets are reviewed and approved.

(F) Transfers – The City transfers money to and from various funds periodically. However, these transfers were not approved by the City Council prior to the actual transfer. Also the City didn't account for the transfers in accordance with the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – The City Council should approve all fund transfers prior the actual transfer and document approval and amount(s) as part of the minutes record. The City should also follow the COA for all fund transfers.

CITY OF KEYSTONE

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (G) Separately Maintained Records – The Library maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (H) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (I) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the general government and business-type activities function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

There was no evidence in the City Council minutes that a public hearing was held on the fiscal year 2014 budget, as required by Chapter 384.16(3) of the Code of Iowa.

Also, the City Council did not adopt a resolution approving the budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should follow Chapter 384.16(3) of the Code of Iowa regarding public hearings and the City should adopt a resolution for all future budgets.

CITY OF KEYSTONE

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (J) Water Revenue Bond – The City transferred funds from the Enterprise, Water Fund to the Debt Service Fund in order to pay principal and interest on its water revenue bond. The principal and interest due on the water revenue bond should be paid from the Enterprise, Water Fund. Chapter 384.4 of the Code of Iowa does not allow the City to pay principal and interest on a water revenue bond from the Debt Service Fund.

The provisions of the water revenue bond require sufficient monthly transfers be made to a separate water revenue bond sinking account for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to this account.

The City established an internal loan in 2005 in which various funds advanced monies to the Special Revenue, Urban Renewal Tax Increment Financing Fund. It appears the City intended to repay \$37,897 from the Special Revenue, Tax Increment Financing Fund to the various funds in fiscal year 2014; however, no evidence could be located that these repayments were made.

Recommendation – The City should ensure that the water revenue bond payments are paid from the Enterprise, Water Fund. The City should also establish a water revenue bond sinking account and ensure monthly transfers are made to the water revenue bond sinking account as required. In addition, the City should review the internal loan to ensure all transactions are accounted for properly, and make adjustments, if necessary.

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Michael Seecks, Mayor Owner of M & K Automotive	Vehicle repairs	\$596

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with Michael Seecks does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

CITY OF KEYSTONE

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (L) Annual Urban Renewal Report (AURR) – The AURR report was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was certified on January 15, 2014 and was approved by the City Council on February 6, 2014.

In addition, the amount reported as TIF debt outstanding on the Levy Authority Summary was understated by \$66,472.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

- (M) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

Based on a review of the City's records, and based on the review of the County Auditor's "Urban Renewal Area, TIF Indebtedness/Increment Tax Revenue Reconciliation" prepared in December 2013, it appears the City certified approximately \$185,000 in excess debt.

Recommendation – The City should work with TIF legal counsel to resolve this situation.